Spotlight on... Direct Bookers and Ancillary Revenue

Are direct bookers the biggest spenders?
Direct bookers: are they bigger spenders?

In the summer of 2016, Kalibri Labs published research suggesting that direct bookers were ‘significantly more profitable’ than those who came via OTAs - to the tune of about 9%, on average. That figure rises to almost 18% once you factor in ancillary spend. That’s even without considering the fact that acquisition costs decrease as direct bookers return to a hotel, while they stay the same, or grow, if guests continue to use OTAs to book.

It’s not like most hoteliers need to be convinced that direct guests tend to be better for them financially. But that Kalibri Labs research got us thinking about whether hotels - which often operate as a collection of fragmented teams - are joining up the dots between how guests book and how much they spend.

This report, the first in our Triptease ‘Spotlight on...’ series, asks the questions: Are hotels aware that direct bookers are spending more with them? Do they adjust their messaging accordingly? And what solutions are out there to help hoteliers with the tricky job of upselling the guest once they’re in the property?

It’s too simplistic to say that ‘Direct is Best’ for every hotel, regardless of circumstances. Some hotels might have 70% of their business coming from tour operators, 25% from OTAs, and a teeny tiny 5% coming direct. Switching off everything other than that direct channel would be foolhardy at best. But there are steps every hotel can take to (a) maximise the value of every guest, and (b) adjust the habits of indirect bookers once they arrive in the hotel.

So, what are hoteliers doing already? And what solutions are out there to help them do more?
Direct bookings

We surveyed a group of hoteliers about their current practices with regards to direct bookers and ancillary spend.

- 47% of hoteliers surveyed said they always treated direct bookers better
- 33% said that direct bookers are treated better sometimes
- 21% never treat direct bookers differently to other guests

Better rooms and free upgrades are on the cards for many direct bookers, it seems: 33% of hoteliers we surveyed give automatic or priority upgrades to those guests who arrive direct.

Others are making a conscious effort to provide a higher standard of service: one hotel provides a “personal escort” to the room of every direct booker, while another simply told us that “we’re nicer to them”.

For the 21% that aren’t treating direct bookers any differently, motivation is varied. For a few, it’s just that they’ve never thought about it, with a similar number saying that they don’t have the resource to implement anything.

Nearly half of that group, though, said that they just didn’t see any reason to treat direct bookers differently, and they aren’t offering ‘direct booking benefits’ to encourage people to book with them.
When the same hoteliers were asked “which type of guest spends most with you on top of their booking”, 50% answered either ‘regular guests who book direct’ or ‘one-off guests who book direct’.

For the 17% who either find that OTA guests spend more, or that there is no difference in guest spend, it makes sense not to push direct too heavily. But for the 50% who know that direct bookers spend more, offering ‘direct booking benefits’ could mean attracting a higher-value guest as well as saving on commission fees.

One hotelier confessed that they didn’t treat direct bookers any differently because of a fear of penalisation from their OTA partners - which isn’t unusual.

For instance, we heard recently that despite the European Union’s ruling against strict rate parity clauses between hotels and Expedia/Booking.com, 79% of hoteliers are yet to vary their prices across the different distribution platforms.

The sway online intermediaries hold over hotels, for better or worse, leaves many hoteliers afraid to ‘step out of line’.

Of course, the overall payoff of this depends on the cost of the ‘benefits’ and of advertising them. What works for one hotel may not work for another.
We know that hotels are putting great effort into pushing the ‘Direct is Best’ message on their websites, but a third of the hotels we surveyed said that they never mention it once the guest is on-site.

This was all the more surprising when we saw that 60% of those same hotels said that they sometimes or always treat direct bookers better. Needless to say, the Triptease opinion is that if your direct bookers get a better stay, you should be advertising that fact far and wide - especially to guests who tend to book with OTAs!

For the 67% of hoteliers who sometimes or always mentioned the benefits of booking direct to their OTA guests, motivations were varied - but there was a common theme of maximising value.
If a guest books via an OTA, do you mention the benefits of booking direct at check-in, or during their stay?

- “Yes, because I could earn more with directs.”
- “Yes - no commission for the hotel, cheaper price for the guest... a win-win for both parties.”
- “No. We believe that a guest who books via an OTA is a customer of that OTA, and this relationship must be respected.”
- “We do it sometimes because it’s easier for the guests to make changes in their booking, but we respect the OTAs’ rules.”
- “We only mention it when there are issues and the guest would have been more informed by our site.”
- “We don’t do it because they’ve booked by that point - it’s too late.”
- “We always mention the benefits of booking direct. If the guest books direct with us next time we reduce our commission, and we can provide a better service as we are talking directly to them about what type of room they want.”
- “Yes - (I want them to book direct) because there’s no commission payment!”
A number of hoteliers indicated to us that they had a policy of talking to guests soon after they’ve made their booking, and allowing the guest to switch to a direct booking if they want to.

“We mention the benefits of booking direct because they might not know otherwise. This gives guests an opportunity to cancel with the OTA and book with us, in a better room.”

“I convert a lot of guests from OTAs to my site when I first talk to them after the reservation has been made. We call or email all our guests to confirm details. If a guest wants anything at all that is outside of our standard OTA policies, I tell them right away that they should book direct with us - and they do.”

A hotel we know in Dubai has gone one step further, and employs a full-time member of staff to talk to guests who booked with OTAs.

Technically a ‘Sales Coordinator’, the employee is tasked with meeting regular guests who book online, having a coffee with them, and converting them into direct bookers.

Their KPIs are actually based on the number of guests approached and converted.
Direct bookings

So, we know many hotels are striving to give guests a reason to book direct. But, apart from saving on commission, do those hoteliers know what they’re getting in return? We asked:

*Which type of guest spends most with you on top of their booking? (On room upgrades, meals in the hotel, spa access, etc.)*

- **Regular guests who book direct**: 40%
- **One-off guests who book direct**: 10%
- **Regular guests who book with OTAs**: 23%
- **There is no difference**: 7%
- **I don’t know**: 20%
Ancillary spend

An impressive 40% of the hoteliers we surveyed pointed to direct bookers as their biggest spenders, demonstrating that the value of a direct booking often isn’t limited to what it saves the hotel in commission fees.

So are hotels thinking about how to maximise the value of their direct bookers? And how can they do so without compromising the guest relationship, or cheapening the value of their brand?

Upsell isn’t about getting a guest to spend more by any means necessary. It’s about hitting the sweet spot of giving a guest the best possible experience, and providing them with services that they’re happy to spend a little extra on.
Do guests have the opportunity to purchase add-ons when they're booking on your website?

- 70% yes
- 30% no

Do you ‘upsell’ once the guest is in the hotel? (Offer room upgrades, extras, etc.)

- Yes, always: 20%
- Yes, when it feels appropriate: 37%
- Sometimes, but there’s no defined policy: 32%
- No, never: 10%
Ancillary spend: **in-room technology**

In the hotels that we surveyed, guests are likelier to be able to spend more in the hotel itself than on the website. Hoteliers are best in class when it comes to serving the customer, and it’s no wonder that ancillary revenue is easier earned in person than online.

But with customer touchpoints shifting all the time, hoteliers need to be looking to other places for upsell than the traditional front desk pitch. Guests are increasingly expecting mobile check-in and digital room keys, and with those services will come a reduction in guaranteed staff-to-customer conversation time.

Tech firms are helping hotels keep up with the consumer shift to mobile by providing in-room apps and hardware through which hoteliers can interact with - and sell to - their guests.

We spoke to two providers, handy and GuestU, about what their solutions bring to the upsell table.
handy and GuestU both provide customisable smartphones that hotels can place in guest rooms, giving guests access to free data and calls for the entirety of their stay. A huge win for guests - but also a great step forward for hotels, who gain near-constant access to communication with guests during their stay.

“We see ourselves delivering key three things to hotels,” explains handy’s Romain Baron. “Increased guest satisfaction, improved guest experience, and increased revenue for the hotel.” handy’s phones can be customised to each guest, meaning hotels can provide fully branded offers that closely match guest needs. Hotels can advertise their facilities, services, and offers to guests, who can then book what they want with just the tap of a button.

“GuestU’s greatest strength is how well we can personalise the phones to the hotel brand,” says GuestU’s Joana Taborda. “We have a team devoted to researching the hotel’s location, and the hotel’s particular strengths.” Like handy, GuestU supports guest booking of tours, F&B, and other services through the mobile devices.

The emphasis that both companies place on brand is crucial. The world of hotel loyalty is shifting, and ensuring that guests meaningfully engage with your brand is easier said than done. By placing your brand into your guest’s pocket, you’re increasing your chances of that brand resonating and connecting with a guest during their stay. Indeed, GuestU sees guests engaging with their phones for an average of 70 minutes per day - longer than any hotelier could expect to spend in conversation with a guest for the entirety of their stay.

Of course, aside from brand exposure, handy and GuestU provide hotels with the opportunity to maximise the value of their guests through ancillary spend. “We see MICE and corporate spend increase by over 20%, in-room dining spend increase by over 23%, and F&B spend rising by a huge 30% when guests are using handy,” says Romain.

And that’s alongside the boost to guest feedback, which both GuestU and handy promise as part of their service. “30% of client reviews on TripAdvisor now mention the GuestU phone,” says Joana. handy, meanwhile, claims to see an average 0.31 increase to client review scores - which translates to a 3.4% increase in RevPAR.
Ancillary spend: experiences

So, in-room mobile technology is a potentially highly profitable channel through which hotels can push their branded services. But what exactly should those services be?

There's been plenty of industry buzz recently around the ‘extras’ some hotels are beginning to provide guests with in an attempt to compete with services like Airbnb Trips. We've seen Accor acquire events company Potel & Chabot, and Marriott introduce an ‘experience’ marketplace.

We wanted to explore whether other hotels are turning towards extras like these in order to enhance their ‘direct booking’ offerings, or whether the talk of ordinary hotels offering ‘experiences’ on a large scale is just industry noise.

Of the hotels we surveyed, 26% of those offering extras on their websites are indeed selling tours, activities, or ‘experiences’ alongside their rooms, while 33% are sticking to the more traditional ‘spa treatments’. Others are offering car hire, while one 94-room hotel we spoke to in the Maldives gives visitors to their website the opportunity to purchase flights.

So, are those 26% representative of a wider industry trend? We spoke to Nor1’s Valyn Perini about the ‘experience’ trend, and whether the practice of selling tours alongside hotel rooms is here to stay.
Nor1 has been in the market for ten years, and we know that the correct way to upsell is with dynamic pricing. We don’t support static pricing in any of our solutions - it’s an unnecessary way for hotels to leave money on the table. Where possible, hotels should be dynamically pricing their spare inventory based on a number of different data points.

**Dynamic pricing**

One of Nor1’s solutions for hotels is a front desk upsell product that the agent utilises during check-in. They’re able to quickly see what rooms are available to offer as upgrades, and how they should price them. We’ve got some pretty smart algorithms in place which provide the agent information on how to offer, how similar offers have performed in the past with similar types of guest, and how those offers tend to perform in the hotel’s region. The historical reason that hotels haven’t been so good at upselling, and the reason some are still reluctant to do it, is that they haven’t been doing this level of dynamic pricing at the point of sale. Good salesmanship isn’t the only thing your staff need - they also need good data to base their decisions on.

**When upsell works**

‘Booking journey’ has become a bit of a cliche phrase, but hospitality providers do need to be thinking about it. Hoteliers shouldn’t be treating their guests in exactly the same way at every point of that ‘journey’.

Guests behave differently at different times. A mom with three whining children trying to check in to her family suite is going to be less open to an upsell pitch than a business traveller who receives an email offering a cheap upgrade to a room with high-speed wifi a week before their stay.
Ancillary spend: experiences

There’s a fairly high conversion rate for hotels who offer ancillaries on their confirmation webpage. That rate is really low, though, for confirmation emails. If you think about it, we tend not to open confirmation emails - they’re used as a check-mark, but people tend to forget about them until much closer to their stay. Pre-arrival emails are where we see lots of conversion. Guests are just much likelier to open an email from their hotel if it’s close to their stay - they don’t want to miss any information.

Are tours taking off?

There’s been a lot of buzz in the industry recently about offering tours, experiences, and so forth alongside hotel rooms. But I’m not so sure; we’re just not seeing the evidence that this is something that works. Obviously it depends on the property, but it definitely isn’t something I would recommend to everyone.

We actually launched an on-property tours and activities product back in 2015, before there was so much of an industry buzz around the whole thing. And you know what? We got nothing. We were providing a link between hotels and tour operators, shuttle bus services, that kind of thing, but the uptake was almost zero. It just seemed like guests were saying ‘we’re not here for that’. One thing we definitely learnt is that there’s almost no motivation for tour operators to do these kinds of deals with hotels - margins are so skinny anyway that they can barely knock off any more discount.

We were either too far ahead of our time (!) or there are just two different sets of audiences that these ancillary trips are trying to combine. I don’t believe that the people who do Airbnb Trips are the same people who are staying in hotels and resorts.

The only way that this kind of ‘experience’ offering will be able to work for the majority of hotels is if some kind of shared services are built in the background. Nobody’s built an Expedia for tours and activities yet (even if Expedia say they have). A hotel’s core competency is not in selling third party services - they have a hard enough time selling their own.
Do you see hotels going the same way as airlines when it comes to ‘bundling’?

Packages have always been part of the hotel industry. The challenge for hotels is that the inventory control applications that are used - PMSs, CRSs - are not sales applications. Most of them have some kind of packaging functionality, but it’s really limited. The hotel industry as a whole doesn’t have a sales tool that easily allows them to create bundles like the airlines do.

The closest thing they’ve got - and they don’t even know if they’ve got it yet - is the CRS Amadeus is building for IHG. Amadeus are saying that v2 will have a lot of sales functionality built into it. But even that’s at least two or three years away. The hotel industry is hampered by a lack of technical ability and freedom to create what it needs.

What saved airlines were the forward-thinking companies that built sales tools on top of PSSs (passenger service systems). The hotel industry hasn’t been able to do the same thing mainly because of its complicated ownership structure - you can have three different entities all involved in one building (the building owner, the brand, the management team), and money changing hands in all sorts of different ways. There’s a multiple stakeholder problem that airlines just don’t have. I think we’re still some way away from truly seamless sales functionality on hotel inventory applications.
Direct bookers and ancillary revenue

The benefits of direct bookings don't stop at the point of sale. Yes, they save hotels money on commission fees, but direct bookers are also easier to upsell to, more likely to become brand loyal, and - crucially - are likelier to spend more once in the hotel.

The financial reward of direct bookings should, if possible, be measured on not only the net amount a hotel retains on each booking (booking value - cost of acquisition), but on the real-terms value of each guest - including ancillary spend and the future savings made on repeat bookings.

A healthy channel mix is vital for the success of any hotel, and turning off everything else apart from direct - unless you have a truly killer website and marketing budget - isn't going to be financially viable for the vast majority of hotels. But, as we've seen, there are steps hoteliers can take to maximise the value of every guest, as well as to educate indirect bookers on the value of booking direct.
Acknowledgments

The Nor1 Merchandising Platform helps hotels & hotel organizations of all sizes provide real-time data-driven, highly relevant and personalized pricing and merchandising solutions exactly when guests are ready and willing to buy upgrades, products and other amenities that make their stay even better.

www.nor1.com

handy’s proprietary hospitality platform extends a hotel service footprint with diverse features proven to elevate guest experience and unlock unexplored revenue opportunities for the intrepid hotelier.

www.handy.travel

GuestU combines the functionality of a smartphone powered with free internet and voice calls, your own app, hotel in-room services, city travel guide and useful info, into one fully integrated guest experience platform.

phone.guestu.com
Spotlight on... Direct Bookers and Ancillary Revenue